

REGULAR MEETING

SOUTH DAKOTA RETIREMENT SYSTEM

December 5, 2019

The Board of Trustees of the South Dakota Retirement System held its regular meeting on December 5, 2019, in the conference room, Drifters Events Center, Fort Pierre, South Dakota.

BOARD MEMBERS IN ATTENDANCE:

James Johns, Chair
Eric Stroeder, Vice Chair
Karl Alberts
James Appl
Penny Brunken
Liza Clark
Matt Clark – Ex Officio
Kathy Greeneway
Laurie Gustafson
James Hansen
Myron Johnson
Kevin Merrill
KJ Peterson
Justice Mark Salter
Darin Seeley
Glen Vilhauer

Table of Contents	
Chair's Preliminary Remarks	2
Approval of September 4, 2019 and November 7, 2019, Minutes	2
Recognition of Retiring Board Members	2
Ceremonial Oath of Office	4
SDRS Financial Statements for PE June 30, 2019	4
SDRS Financial Audit for PE June 30, 2019	4
SDRS Quadrennial Investment Performance Review	5
SDRS Actuarial Valuation for PE June 30, 2019	5
SDRS Actuarial Audit Review	6
FY 2020 Investment Update	6
SDRS Projected Funded Status as of June 30, 2020	6
SDRS Member Demographics and Workforce Information	7
Department of Labor and Regulation Retirement Plan Bill	8
Proposed 2020 Legislation	9
FY 2021 Governor's Recommended Budget	10
Establish COLA for FY 2021	10
Set Variable Retirement Account Contribution Rate for FY 2021	11
Auto Enrollment 2.0 Update	11
Conference Attendance Report	11
Public Comment	12
Old/New Business	12
Executive Session – Consultation with Legal Counsel	12

Board member Louise Loban was absent.

OTHERS IN ATTENDANCE:

Deene Dayton
Laurie Gill
Hank Kusters
Larry Langer, CavMac
Lealan Miller, Eide Bailly
Amber Mulder, DLR
Tammy Otten, SDIC
Paul Schrader, Consultant
Emily Ward, DLR
Travis Almond
Brittnie Adamson

Jane Beer
Doug Fiddler
Michelle Humann
Michelle Mikkelsen
Jessica Reitzel
Dawn Smith
Jacque Storm

For continuity, these minutes are not necessarily in chronological order.

AGENDA ITEM 1
CHAIR'S PRELIMINARY REMARKS

Summary of Presentation

Chair James Johns asked the board for any conflict disclosures. There being none, the Chair then explained the policy concerning the public testimony.

Mr. Johns introduced Mr. Darin Seeley, Commissioner of the Bureau of Human Resources. He stated that Mr. Seeley was replacing Ms. Laurie Gill as the Governor's appointee on the SDRS Board.

Board Action

No action was necessary.

AGENDA ITEM 2
APPROVAL OF SEPTEMBER 4, 2019 AND
NOVEMBER 7, 2019, MINUTES

Board Action

IT WAS MOVED BY MR. VILHAUER, SECONDED BY MS. BRUNKEN, TO APPROVE THE MINUTES OF THE SEPTEMBER 4, 2019 AND NOVEMBER 7, 2019, BOARD OF TRUSTEES MEETINGS. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

AGENDA ITEM 3
RECOGNITION OF RETIRING BOARD MEMBERS

Summary of Presentation

Chair Johns expressed gratitude and appreciation for the time and talents that Laurie Gill and KJ Peterson contributed to the South Dakota Retirement System. Ms. Kathy Greeneway offered the following resolution for Laurie Gill:

I MOVE FOR A VOTE OF APPRECIATION TO LAURIE GILL FOR HER SERVICE ON THE BOARD OF TRUSTEES BY ADOPTING THE FOLLOWING RESOLUTION:

WHEREAS, Laurie Gill has served the Board of Trustees of the South Dakota Retirement System for six years;

WHEREAS, Laurie Gill has worked and been very concerned for a financially sound and progressive retirement system;

NOW THEREFORE, BE IT RESOLVED, that the Board of Trustees of the South Dakota Retirement System wishes to thank Laurie Gill for her positive efforts toward meeting the objectives of the plan and to wish her success in all future endeavors.

Mr. Eric Stroeder offered the following resolution for KJ Peterson:

I MOVE FOR A VOTE OF APPRECIATION TO KJ PETERSON FOR HER SERVICE ON THE BOARD OF TRUSTEES BY ADOPTING THE FOLLOWING RESOLUTION:

WHEREAS, KJ Peterson has served the Board of Trustees of the South Dakota Retirement System for twenty-two years;

WHEREAS, KJ Peterson has worked and been very concerned for a financially sound and progressive retirement system;

NOW THEREFORE, BE IT RESOLVED, that the Board of Trustees of the South Dakota Retirement System wishes to thank KJ Peterson for her positive efforts toward meeting the objectives of the plan and to wish her success in all future endeavors.

Board Action

IT WAS MOVED BY MS. GREENEWAY, SECONDED BY MS. CLARK, TO ADOPT THE RESOLUTION EXPRESSING GRATITUDE AND APPRECIATION FOR THE TIME AND TALENTS LAURIE GILL CONTRIBUTED TO THE SOUTH DAKOTA RETIREMENT SYSTEM. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

IT WAS MOVED BY MR. STROEDER, SECONDED BY DR. HANSEN, TO ADOPT THE RESOLUTION EXPRESSING GRATITUDE AND APPRECIATION FOR THE TIME AND TALENTS KJ PETERSON CONTRIBUTED TO THE SOUTH DAKOTA RETIREMENT SYSTEM. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

AGENDA ITEM 4
CEREMONIAL OATH OF OFFICE

Summary of Presentation

Darin Seeley was sworn in as the Governor's Appointee trustee.

Board Action

No action was necessary.

AGENDA ITEM 5
SDRS FINANCIAL STATEMENTS
FOR THE PERIOD ENDING JUNE 30, 2019

Summary of Presentation

Ms. Jane Beer, SDRS Chief Financial Officer, presented the SDRS Financial Statements for the period ending June 30, 2019. Ms. Beer stated that there was \$255 million in total contributions and over \$596 million in total benefits and refunds paid. There were 497 participating employers and SDRS had over 89,000 members.

Board Action

No action was necessary.

AGENDA ITEM 6
SDRS FINANCIAL AUDIT
FOR PERIOD ENDING JUNE 30, 2019

Summary of Presentation

Mr. Karl Alberts, chair of the Audit Committee, stated that the audit committee had a conference call with the Eide Bailly to review the external auditor's findings of SDRS, the SDRS Supplemental Retirement Plan (SRP), and the Special Pay Plan (SPP) for the fiscal year ending June 30, 2019.

Mr. Lealan Miller, Partner, Eide Bailly, presented the external financial audit of SDRS, the SDRS Supplemental Retirement Plan (SRP), and the Special Pay Plan (SPP) for the fiscal year ending June 30, 2019.

Mr. Miller stated that the Eide Bailly report found no material weaknesses in the review of SDRS' financial statements and internal accounting controls.

Board Action

IT WAS MOVED BY MR. ALBERTS, SECONDED BY MR. JOHNSON, TO ACCEPT THE FINANCIAL AUDIT REPORT FOR FISCAL YEAR 2019 AS PRESENTED. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

AGENDA ITEM 7
SDRS QUADRENNIAL INVESTMENT REVIEW

Summary of Presentation

Mr. Travis Almond, SDRS Executive Director, stated that Eide Bailly performed the SDRS quadrennial investment review for fiscal years 2015-2018. He noted that the two biggest takeaways were the fact that while the compared results between the South Dakota Investment Office (SDIO) and Eide Bailly had some variances, the differences were not material. In addition, this review confirmed that the SDIO calculations were within a reasonable range of materiality.

Board Action

IT WAS MOVED BY DR. HANSEN, SECONDED BY MR. APPL, TO ACCEPT THE QUADRENNIAL INVESTMENT REVIEW AS PRESENTED. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

AGENDA ITEM 8
SDRS ACTUARIAL VALUATION
FOR THE PERIOD ENDING JUNE 30, 2019

Summary of Presentation

Mr. Doug Fiddler, SDRS Senior Actuary, presented the SDRS Actuarial Valuation for the period ending June 30, 2019.

Mr. Fiddler explained the purpose of the actuarial report. He stated the report included required annual statutory determinations and disclosures. It can also be used to identify trends that can serve as an early warning system for potential future funding problems.

The conclusions of the 2019 Actuarial Valuation, advised Mr. Fiddler, are as follows:

- System investment experience was 4.84 percent, less than the assumed 6.5 percent, resulting in actuarial investment losses of \$201 million for the year;
- Liability gains for the year were \$6 million, with gains from lower than expected salary increases offsetting losses primarily from terminations and new hires/rehires;
- The 2020 SDRS COLA will be 1.56 percent;
- No corrective action recommendations are required;
- Fair Value and Actuarial Value funded ratios are 100.1 percent;
- If future experience matches the actuarial assumptions, the funded ratios are expected to remain at 100 percent and the restricted maximum COLA is expected to remain at 1.88 percent;
- As of June 30, 2019, SDRS has a small net pension asset;
- The cumulative impact of the net pension asset and deferred inflows/outflows results in an asset on the balance sheets of SDRS participating employers;

- SDRS remains a fully funded retirement system, significantly better funded than almost all statewide retirement systems; and
- SDRS meets all the Board of Trustees' funding objectives as of June 30, 2019.

Board Action

No action was necessary.

AGENDA ITEM 9 **SDRS ACTUARIAL AUDIT REVIEW**

Summary of Discussion

Mr. Larry Langer, Principal and Consulting Actuary, Cavanaugh Macdonald Consulting (CavMac), presented the conclusions of the actuarial audit review of the SDRS valuation they performed. CavMac concluded that the actuarial valuation results were reasonable and accurate, based on the actuarial assumptions and methods used. He also stated that the valuation was performed by a qualified actuary and was performed in accordance with the principles and practices prescribed by the Actuarial Standards Board.

Board Action

IT WAS MOVED BY MS. GUSTAFSON, SECONDED BY MS. PETERSON, TO ACCEPT THE ACTUARIAL AUDIT REVIEW FOR FISCAL YEAR 2019 AS PRESENTED. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

AGENDA ITEM 10 **FY 2019 INVESTMENT UPDATE**

Summary of Discussion

Mr. Matt Clark, State Investment Officer, stated that the return as of December 4, 2019, was up approximately 2 percent.

Board Action

No action was necessary.

AGENDA ITEM 11 **SDRS PROJECTED FUNDED STATUS AS OF JUNE 30, 2020**

Summary of Discussion

Mr. Fiddler noted that SDRS contributions are fixed and benefits are variable based on affordability and that under most circumstances, SDRS' fair value funded ratio is expected to remain at 100 percent. He added that the SDRS COLA will vary directly with both inflation and long-term affordability.

Mr. Fiddler reviewed the recent SDRS COLA history compared to inflation, estimates of 2021, 2022, and 2023 COLA ranges, likelihoods of 2021, 2022, and 2023 COLA ranges,

and likelihoods of 2023 COLA ranges after reaching a 120 percent fair value funded ratio.

In summary, the SDRS fair value funded ratio is expected to be 100 percent at June 30, 2020, and net fiscal year 2020 returns greater than approximately 10 percent would result in an unrestricted 2021 COLA (inflation between 0.5 percent and 3.5 percent). However, on the opposite spectrum, noted Mr. Fiddler, net fiscal year 2020 returns less than approximately negative 7 percent would reduce the 2021 restricted maximum COLA to 0.5 percent and require corrective action recommendations.

Mr. Fiddler stated that ignoring fiscal year 2019 returns to date, the likelihood of additional required corrective action recommendation in the near future varies from approximately 14 percent (one-year period, current asset allocation) to approximately 30 percent (three-year period, benchmark asset allocation). Similarly, the likelihood of the criteria for consideration of benefit improvements being met varies from 1 percent (one-year period, current asset allocation) to 19 percent (three-year period, benchmark asset allocation).

Board Action

No action was necessary.

AGENDA ITEM 12 **SDRS MEMBER DEMOGRAPHICS AND** **WORKFORCE INFORMATION**

Summary of Discussion

Mr. Fiddler stated that the population in the United States continues to age. As the baby boomers mature and retire, there will be a significant impact on the workforce throughout the country, including South Dakota.

More SDRS members are nearing retirement than ever before, noted Mr. Fiddler, but the percentage of members nearing retirement appears to have stabilized. All public employers will face future challenges in replacing retiring and terminating members. Public employees are retiring later, but still before age 65. Health care cost concerns are cited by many employees as a reason. However, the median service of SDRS retirees is decreasing, fewer service purchases explain much of the trend.

Mr. Fiddler stated that on June 30, 2007, baby boomers comprised 44 percent of SDRS membership with only 11 percent of the baby boomers retired. As of June 30, 2019, baby boomers comprised 38 percent of SDRS membership and 56 percent of the baby boomers had retired.

Mr. Fiddler reviewed the trends in members nearing retirement. He stated that the SDRS membership is retiring later. Considering all classes, the median age at retirement has

increased from 61 to 63.2 since 2006. Service at retirement has dropped considerably. Considering all classes, median service at retirement has decreased from 23.8 years to 21 years since 2006. Much of this reduction is because a significantly lower percentage of Class A or Judicial retirees in recent years have purchased service. A similar effect can be seen for Public Safety retirees, but with fewer retirees, the median service and retirement patterns are less consistent. The trends are clearer considering the age at retirement by different periods of service. The median retirement age has been steadily increasing for all members and appears to be stabilizing around age 62 for longer-service members compared to 58 in 2006-2008. When grouped by service, the median retirement age of each group is increasing. In addition, the percentage of retirees with less than 20 years of service has increased from 38 percent to 47 percent since 2006, while the percentage of retirees with at least 20 years of service has decreased from 62 percent to 53 percent.

Moving to the actual number of retirements each year, Mr. Fiddler noted that staff expected the number of retirements in fiscal year 2019 to be around 1,500, however that number was lower at approximately 1,300. Staff believes that next four or five fiscal years will be big years for retirements at approximately 1,400-1,500 each year.

In conclusion, noted Mr. Fiddler, staff expect a surge in retirement numbers to continue for the next 4 to 5 years as baby boomers retire. Members are retiring at later ages, likely due to health care costs concerns. The median service at retirement is decreasing, indicating employers are hiring an increasing number of experienced employees and fewer members are purchasing service. The bottom line, advised Mr. Fiddler, is that all SDRS employers will need to replace a significant portion of employees in the next five to ten years.

Board Action

No action was necessary.

AGENDA ITEM 13 **DEPARTMENT OF LABOR AND REGULATION (DLR)** **RETIREMENT PLAN BILL**

Summary of Discussion

Ms. Emily Ward, Director, Division of Administrative Services, Department of Labor and Regulation (DLR), informed the board that the DLR retirement plan was established in August of 1961 and was closed to new members on July 1, 1980. She noted that there were currently 194 retirees, four active members, and one terminated vested member. The plan balance as of November 1, 2019, was \$56.6 million and was 100 percent funded.

Ms. Ward stated that the DLR Pension Board surveyed the DLR plan participants and 73 percent of them were supportive of merging with SDRS. The DLR plan participants

would be merged into SDRS effective July 1, 2020, as Class D members with the same benefits as provided by the current DLR plan. The COLA will be the same COLA as determined for the SDRS plan and corrective actions would be limited to the COLA unless further legislation occurred due to an extreme circumstance.

Mr. Fiddler stated that he was able to match the 2018 actuarial valuation results to within 0.2 percent. He noted that SDRS staff believes the DLR plan is sufficiently funded and recommends supporting legislation to merge the DLR plan with SDRS.

Board Action

IT WAS MOVED BY MR. STROEDER, SECONDED BY MS. GREENEWAY, TO SUPPORT THE DEPARTMENT OF LABOR AND REGULATION RETIREMENT PLAN TO MERGE WITH THE SDRS RETIREMENT PLAN EFFECTIVE JULY 1, 2020. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

AGENDA ITEM 14 **PROPOSED 2020 LEGISLATION**

Summary of Discussion

Ms. Jacque Storm, SDRS Deputy Director/General Counsel, reviewed the potential legislation that was discussed at the September meeting. The legislation consists of minor revisions for clarity, consistency, and compliance and includes provisions relating to the annual update to the Internal Revenue Code; Supplemental Retirement Plan and Special Pay Plan confidentiality; clarifications relating to investment of assets, classified members, voting requirement of employers joining SDRS, contributions, the calculation of disability and death benefits before 2015, and the commencement of surviving spouse benefits; and the repeal of provisions relating to impermissible tax deferred purchases.

She also explained the potential legislation regarding the qualified benefit preservation arrangement and consistent consideration of incentive pay as discussed at the November meeting.

Board Action

Clarify and Clean-Up Legislation

IT WAS MOVED BY MR. JOHNSON, SECONDED BY MR. APPL, TO ADOPT LEGISLATION FOR INTRODUCTION IN THE 2020 LEGISLATIVE SESSION THAT WOULD UPDATE, CLARIFY, AND REPEAL CERTAIN PROVISIONS RELATING TO THE SOUTH DAKOTA RETIREMENT SYSTEM. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

IT WAS MOVED BY MS. BRUNKEN, SECONDED BY MS. GUSTAFSON, TO ADOPT LEGISLATION FOR INTRODUCTION IN THE 2020 LEGISLATIVE SESSION THAT WOULD CLARIFY AND PROVIDE CONSISTENCY TO THE ADMINISTRATION OF CERTAIN SURVIVING SPOUSE BENEFITS OF THE

SOUTH DAKOTA RETIREMENT SYSTEM. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

QBPA

IT WAS MOVED BY MS. GREENEWAY, SECONDED BY MR. STROEDER, TO ADOPT LEGISLATION FOR INTRODUCTION IN THE 2020 LEGISLATIVE SESSION THAT WOULD ESTABLISH A QUALIFIED BENEFIT PRESERVATION ARRANGEMENT FOR ELIGIBLE MEMBERS OF THE SOUTH DAKOTA RETIREMENT SYSTEM. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

AGENDA ITEM 15
FY2021 GOVERNOR'S RECOMMENDED BUDGET

Summary of Discussion

Ms. Beer reported on the Governor's Recommended Budget for SDRS. She advised that SDRS asked for an increase of \$117,000 in the Fiscal Year 2021 budget for travel, contractual services, and capital assets and that the Governor approved the budget as requested by SDRS.

The Governor's recommendation did not include expenditure authority for a salary package.

Board Action

No action was necessary.

AGENDA ITEM 16
ESTABLISH THE COLA FOR FY 2021

Summary of Presentation

Mr. Travis Almond, SDRS Executive Director, stated that SDCL 3-12C-104 regarding the cost of living adjustment (COLA) states that the annual increase shall be established by the Board for each fiscal year, based on the fair value funded ratio and actuarially determined contribution rate and the increase in the Consumer Price Index.

After review of the COLA calculation process, 1.56 percent is the recommended FY2021 COLA.

Board Action:

IT WAS MOVED BY MR. MERRILL, SECONDED BY MS. PETERSON, TO ESTABLISH THE COLA FOR FISCAL YEAR 2021 AT 1.56 PERCENT. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

AGENDA ITEM 17
SET VARIABLE RETIREMENT ACCOUNT
CONTRIBUTION RATE FOR FY 2021

Summary of Presentation

Mr. Almond stated that pursuant to SDCL 3-12C-1302 the Board must set the variable retirement account contribution rate. He noted that it was the recommendation of staff and the actuary that the variable retirement contribution rate be set at 1.5 percent of each contributing generational member's compensation for the fiscal year beginning July 1, 2020.

Board Action

IT WAS MOVED BY MS. GREENEWAY, SECONDED BY MR. VILHAUER, TO ESTABLISH THE VARIABLE RETIREMENT ACCOUNT CONTRIBUTION RATE FOR FY2021 AT 1.5 PERCENT. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

AGENDA ITEM 18
AUTO ENROLLMENT 2.0

Summary of Presentation

Ms. June Larson, Program Administrator, Nationwide Retirement Solutions, gave an update on the auto enrollment 2.0 project.

Ms. Larson noted that on July 1, 2019, 2,777 full-time state employees who were not already in the Supplemental Retirement Plan were auto-enrolled into the plan. In addition, three additional employers adopted auto enrollment 2.0. As of September 30, 2019, 2,530 (91 percent) have continued contributions, 52 (2 percent) have increased contribution amounts, and 247 (9 percent) have opted out. Of those opting out, Ms. Larson noted that 166 of those were over age 50.

Board Action

No action was necessary.

AGENDA ITEM 19
CONFERENCE ATTENDANCE REPORT

Summary of Presentation

Mr. Johns gave a report on the IFEBP conference he attended.

Board Action

No action was necessary.

AGENDA ITEM 20
PUBLIC COMMENT

Summary of Presentation

There was no public comment.

Board Action

No action was necessary.

AGENDA ITEM 21
OLD/NEW BUSINESS

Summary of Discussion

Board Elections

Ms. Dawn Smith, SDRS Executive/Board Assistant, stated that there would be four positions up for election this year. She advised the Board that notices and petitions would be mailed to the authorized agents of school boards, board of regents employees, state employees, and county employees.

2020 Legislative Session

Mr. Almond stated that the Legislative Session starts on January 14, 2020, and runs through March 12, 2020, with the final day/veto day on March 30, 2020.

Next Meeting Date

Ms. Smith stated that the meeting dates for the upcoming meetings were on the agenda. She noted that all future meetings would be held at Drifters unless otherwise noted.

Board Action

No action was necessary.

AGENDA ITEM 22
EXECUTIVE SESSION FOR CONSULTATION WITH LEGAL COUNSEL

Summary of Presentation

The Board went into executive session.

Board Action

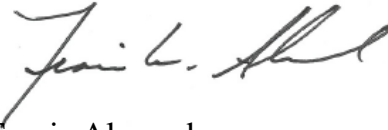
IT WAS MOVED BY MR. MERRILL, SECONDED BY MR. JOHNSON, TO GO INTO EXECUTIVE SESSION PURSUANT TO SDCL 1-25-2 FOR THE CONSIDERATION OF PERSONNEL MATTERS AND TO CONSULT WITH LEGAL COUNSEL ABOUT CONTRACTUAL MATTERS. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

IT WAS MOVED BY DR. HANSEN, SECONDED BY MS. BRUNKEN, TO COME OUT OF EXECUTIVE SESSION. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

ADJOURNMENT

IT WAS MOVED BY MS. PETERSON, SECONDED BY MS. GREENEWAY, THAT THERE BEING NO FURTHER BUSINESS, THE MEETING BE ADJOURNED. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Travis Almond", written in a cursive style.

Travis Almond
Executive Director